HOUSING MARKET OUTLOOK
Winnipeg CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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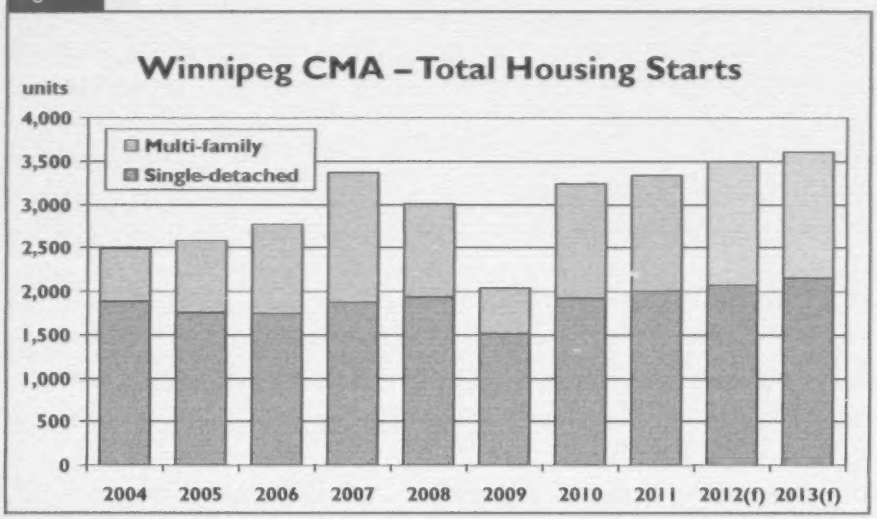
NEW HOME MARKET

Winnipeg housing starts to remain elevated this year and next

Total housing starts in the Winnipeg Census Metropolitan Area (CMA) finished 2011 slightly ahead of 2010, recording the second highest total since 1988. Builders started construction on 3,331 homes last year, an increase of three per cent over the 3,244 units started in 2010. While the number of multi-family starts was virtually identical year-over-year, single-detached starts saw a four per cent increase and surpassed 2,000 units for the first time since 1989.

While the employment expansion was modest in 2011, the shift from part-

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 27, 2012.

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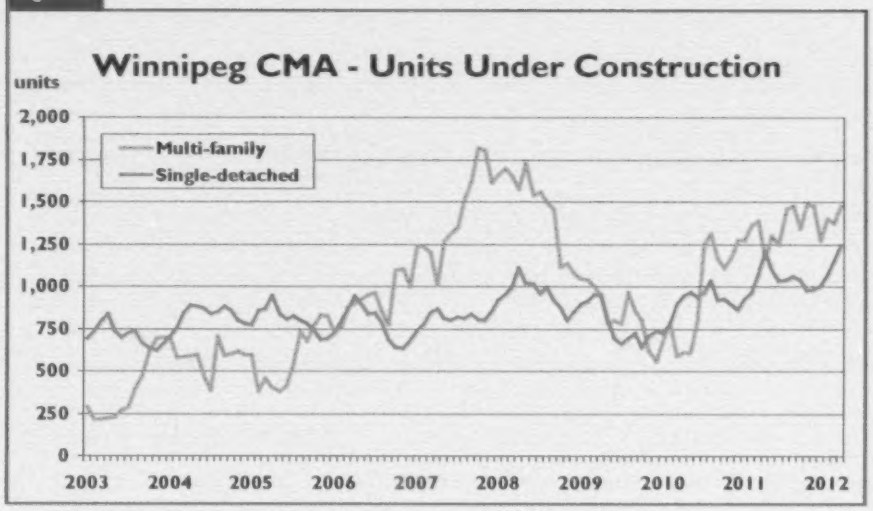
time to full-time employment helped fuel a 3.8 per cent year-over-year increase in average weekly earnings, factors that are supporting demand for new housing. In the first months of 2012, Winnipeg posted year-over-year job gains, a factor that will help maintain the momentum in housing demand moving forward. Population growth is also a key factor in the demand for new homes. Due in large part to increased international immigration, Winnipeg enjoyed a population increase of 1.5 per cent in 2011, with a similar performance expected this year. Combined with low mortgage rates, the above factors will ensure that builders continue to increase production levels, starting 3,500 homes this year and 3,600 in 2013.

Modest increases for single-detached starts

In 2011, area homebuilders started construction on 2,002 single-detached dwellings, an increase of four per cent over 2010 and the highest tally in 22 years. After the first quarter of 2012, single-detached starts numbered 393 units, surpassing last year's corresponding total by 13 per cent. Construction during this first quarter, however, was supported by a much milder winter in comparison to 2011. In the months ahead, weather variations will be less of a factor in year-over-year comparisons and production is expected to mirror last year's results. Starting the busy spring/summer construction season with already heightened levels of production will make it difficult for builders to continue to outpace 2011. By the end of the year, growth in the number of single-detached starts will moderate to 3.6 per cent, reaching 2,075 units.

Figure 2



Source: CMHC

Despite the elevated level of starts, the number of complete and unoccupied homes has not been climbing. During 2011, there were 1,863 single-detached completions, four per cent more than in 2010. Over the same time period, there were 1,868 absorptions, seven per cent more than in the previous year. As a result, the inventory of complete and unabsorbed units averaged 159 units last year, down from 177 units in 2010. Last year's strong pace of absorptions has been maintained thus far. At the end of the first quarter of 2012, inventory of 118 units were down four per cent year-over-year, representing only a single month of supply at the current six-month moving average rate of absorption.

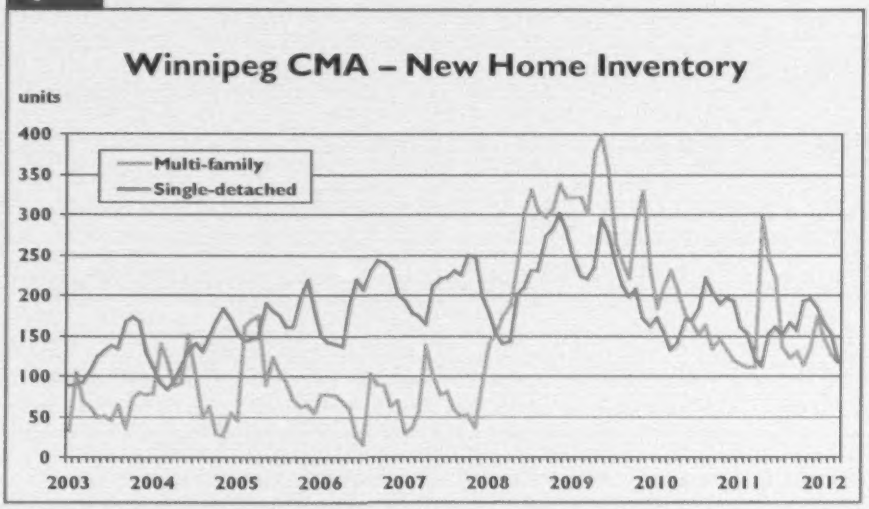
The number of single-detached units under construction at the end of the first quarter of 2012 was 1,239, up 16 per cent from the corresponding period in 2011. Added to the number of units in inventory, total supply at the end of March was 1,357 units, 14 per cent higher than in March 2011. This represents 11 months of supply at the current six-month moving average rate of absorption, slightly higher than the 10 months of supply available at the end of the first quarter of 2011. Despite the higher number of units under construction, inventories are not likely to rise in the coming months as absorptions are expected to keep pace with completions. Demand for new homes will remain strong especially among move-up buyers who will seek to take advantage of the equity gained on their existing homes through increasing prices in the resale market. The relatively low number of listings available in resale market also leaves buyers with limited selection, making new construction an attractive option. Combined with low mortgage rates and strong levels of net migration, these factors will ensure that builders maintain an elevated level of construction and make steady gains to 2,075 starts in 2012 and 2,150 in 2013.

Growth in new house price expected to continue

Statistics Canada's New House Price Index (NHPI) measures the change in the price of new homes where the specifications remain the same between two consecutive periods. Winnipeg's NHPI was up 4.8 per cent in 2011 from 2010, nearly double the Canadian average of 2.5 per cent over the same period. The increase was similar in both the house and land components. The strong pace of both residential and non-residential construction contributed to the upward pressure on input costs as demand was strong for both labour and materials. This trend will continue as elevated construction levels will be maintained over the forecast period. However, the completion of several labour intensive projects over the forecast period may ease pressure on wages going forward. On balance, the total average NHPI is expected to increase by four per cent in 2012 with a similar increase of 3.8 per cent in 2013.

The average absorbed price of a new single-detached house in the Winnipeg CMA rose five per cent in 2011 to $394,958, more than doubling the two per cent increase in 2010. Price gains were supported by buyers shifting to the upper-range of the market. The number of homes priced over $425,000 saw a 37 per cent increase, boosting market share from 18 per cent in 2010 to 24 per cent in 2011. This compositional effect will be less pronounced moving forward as growth in sales of higher priced product will resume a more moderate pace. Given the above conditions, the average price will increase 4.4 per cent in 2012 and 3.5 per cent in 2013, reaching $427,000.

Figure 3



Source: CMHC

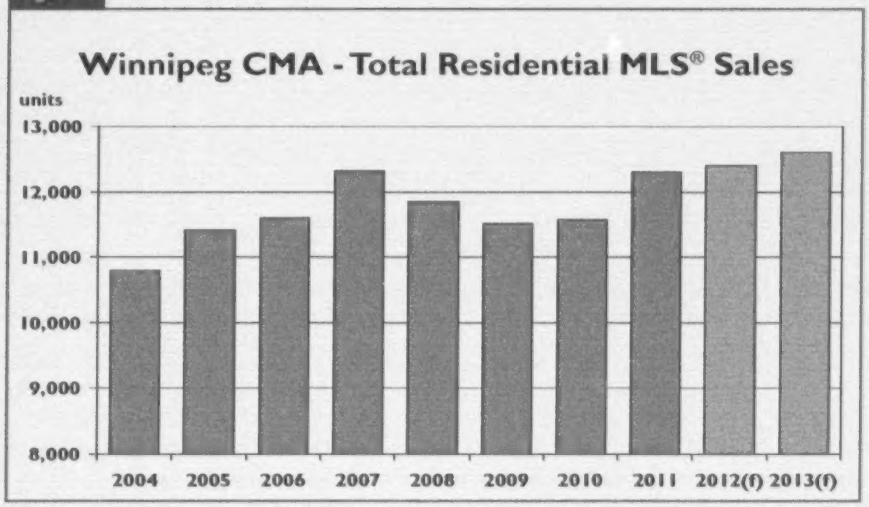
Multi-family starts to increase pace

Multi-family starts, which consist of semi-detached units, rows, and apartments, surpassed 2010's impressive performance by six units in 2011, posting 1,329 units. The same factors that led to this level of construction will persist over the forecast period. Winnipeg will continue to see high levels of in-migration, especially from international sources. This will contribute to housing demand, particularly within the rental market as new arrivals to the city tend to rent before they purchase. With the vacancy rate in Winnipeg's rental market near one per cent, newly constructed units are absorbed quickly. Meanwhile, rental inventories have not increased despite the elevated levels of construction over the last two years. These factors will encourage builders to bring new projects forward.

While units destined for the rental market have made up over 60 per cent of all multi-family starts over the last two years, construction of ownership units has also been strong. Demand for these units is coming from several fronts. First-time buyers looking for an alternative to renting and seeking an affordable entry into home-ownership are turning to the condominium market. Of note, row housing has seen an uptick in activity, tripling in the last three years. These units provide a ground-oriented alternative to a more expensive new single-family home. These units are also offered at a price point that makes them competitive with the resale market. There are also a growing number of empty-nesters who have seen their properties increase in value in the resale market and are ready to make the lifestyle change to condominium living. As a result of sustained demand, absorptions of condominiums have risen to meet completions, maintaining low inventories.

With inventories of all multi-family types and tenures low despite elevated levels of construction, developers will be encouraged to break ground on new projects in 2012 and 2013. In addition, recent

Figure 4



Source: CREA, CMHC Forecast (f)

government incentives to encourage the construction of new units downtown have attracted interest and should come to fruition in the coming months. As a result, the level of multi-family construction will continue to rise with annual starts of 1,425 units in 2012 and 1,450 units in 2013.

RESALE MARKET

Resale activity to edge higher

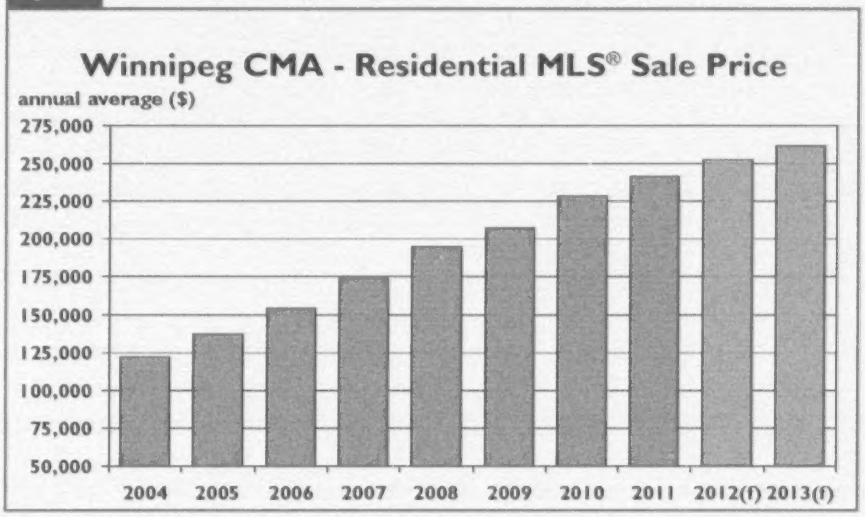
Supported by low mortgage rates and heightened migration, sales of existing homes in the Winnipeg market posted a gain of over six per cent in 2011, reaching 12,297 transactions. This was 22 sales shy of the record set in 2007. Despite a four per cent year-over-year reduction, sales in the first three months of 2012 remained strong by historical standards. The first quarter of 2011 proved difficult to surpass, as it marked the best first quarter for sales in over 20 years.

Moving forward, sales will be influenced by several factors. On the upside, first-time and move-up buyers will help feed sales as full-time employment gains for workers aged 25-44 were positive in 2011. Concurrently, low mortgage rates will encourage some renters to move to homeownership. As well, Winnipeg continues to see gains in net migration, and research has shown that many new immigrants purchase homes within a few years of settlement. Countering these positives, increasing inter-provincial losses will weaken net migration. In addition, increasing prices and carrying costs will inhibit demand. On balance, sales will pick-up for the remainder of 2012, posting a modest gain of less than one per cent to 12,400 units. Sales will post another modest increase of 1.6 per cent in 2013 to total 12,600 transactions.

Moderate price gains to continue

While sales posted a decline in the first quarter, the number of new listings over the same period was virtually identical to that of the previous year. As a result, the sales-to-new-listings ratio declined slightly, going from 65 per cent in March 2011 to 63 per cent in March 2012, still indicative of sellers' market conditions. These persistent sellers' market conditions have led to increases in average price over the last few years, including an increase of 5.6 per cent in 2011. As a result, existing home-owners continue to see gains in equity

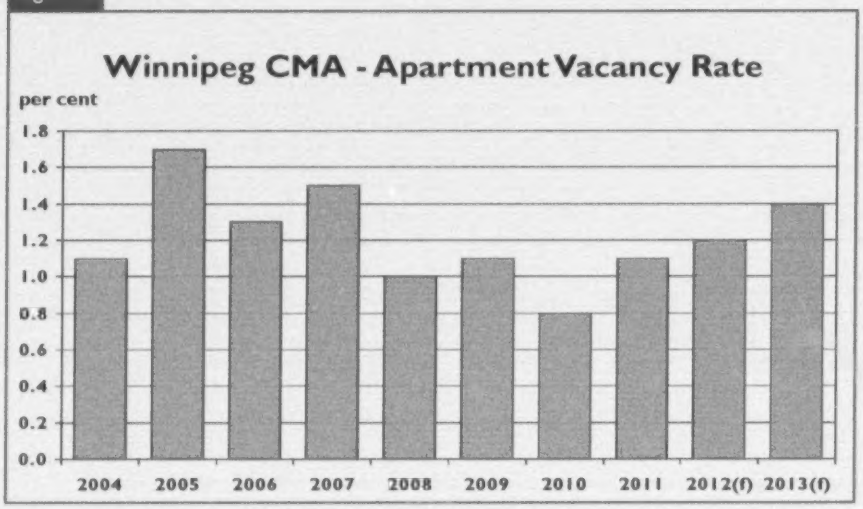
Figure 5



Source: CREA, CMHC Forecast (f)

which will encourage them to look to the move-up market. In addition, some may wish to make a lifestyle change and purchase a condominium, also helping to bring some much needed supply to the market. The additional supply, in conjunction with modest increases in demand, should translate into a gradual move to more balanced conditions over the forecast period. Under these conditions, the average price for 2012 should see an increase of 4.6 per cent to $252,500, followed by a 3.8 per cent gain in 2013 to $262,000.

Figure 6



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

RENTAL MARKET

Sustained demand for rental housing

For the last eleven years, the vacancy rate in Winnipeg's rental apartment market has been below two per cent. Following a 1.1 per cent vacancy rate in October 2011, modest increases are expected as the number of units in the rental market universe will not change substantially and in-migration and household formation provides a steady stream of new renters. The market will see some easing as new units are constructed and existing renters move to home-ownership. On balance, these forces will result in a modest uptick in the vacancy rate to 1.2 per cent in October 2012 and 1.4 per cent in October 2013.

While October 2011's vacancy rate was low at 1.1 per cent, it increased from the previous year when it came in at 0.8 per cent. Many of the conditions that contributed to the increase in vacancy will persist over the next two years. Full-time employment gains were experienced in 2011 in the 25-44 age category who are most likely to become first-time buyers. Stable employment and rising earnings, along with relatively low mortgage rates will also continue to encourage renters to move to homeownership. Those opting to purchase a home will also find favourable conditions in both the new and resale market, as listings are anticipated to increase and price growth to ease. In addition, as suites are vacated, the number of new renters coming into the market will ease slightly as net migration to Winnipeg levels off from the peak set in 2010.

Every year, units are permanently lost from Winnipeg's rental universe due to demolition and condominium conversions. Helping to offset these losses is new rental construction, which surpassed 800 units in both 2010 and 2011. Rental starts were more than 60 per cent of all multi-family starts in both of these years. With vacancies remaining low by historical standards, rental construction is expected to remain elevated over the forecast period and add to Winnipeg's rental stock once these units are completed. These additions, however, will only represent a small percentage of the rental universe and not greatly impact the vacancy rate.

Rent increases to continue into 2013

Each year, the Residential Tenancies Branch sets a rent increase guideline which applies to the majority of Winnipeg's rental apartment stock. In 2012, the guideline limits landlords to a one per cent increase. Average rents, however, are forecast to increase at a rate greater than the guideline for several reasons. Landlords facing increasing costs will continue to apply for exemptions for above guideline increases. There are also an increasing number of units in the universe that are exempt from the guideline because they are less than 20 years old or they have been recently rehabilitated. In addition, newly constructed and rehabilitated units added to the universe over the next year will command higher rents, pushing up the overall average.

Consequently, rents will increase in excess of the guideline with average two-bedroom rent rising from $875 per month in October 2011 to $910 in 2012 and $950 in 2013.

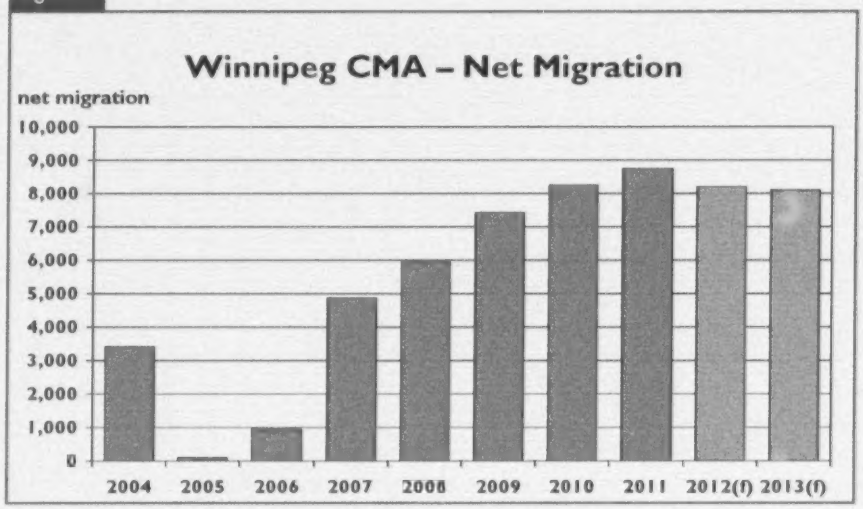
ECONOMIC OUTLOOK

Job growth to improve in 2012 and 2013

Following a modest gain of 0.1 per cent, average employment in Winnipeg is expected to post stronger gains over the next two years. Employment growth slipped into negative territory in the third quarter of 2011 and finished the year with only 230 new jobs. Job creation in the Winnipeg CMA has returned to a position of growth in the first quarter of 2012, recording a year-over-year increase of 1.8 per cent or 7,300 jobs. While there was little overall job growth in 2011, there was a shift from part-time to full-time employment. That trend has continued thus far in 2012, as 7,700 full-time job gains have offset the loss of 400 part-time jobs. Overall, average employment in the Winnipeg CMA will continue this growth pattern for the balance of the forecast period, posting annual increases of 1.1 per cent in both 2012 and 2013.

While Winnipeg continues to see construction on several major public sector projects, some of these are expected to wrap up construction over the course of 2012 and 2013. Nonetheless, a number of private sector projects are planned or underway that will help to keep employment levels high in this sector.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

The value of non-residential building permits in the Winnipeg CMA was up 41 per cent in the first two months of 2012. While gains were mainly in the institutional and government sectors, there was a gain of 10 per cent in the commercial sector.

On the provincial scale, manufacturing shipments were up over six per cent in 2011 and have started 2012 on a positive note. Meanwhile, economic resurgence in the United States, Manitoba's major export market, will bolster shipments though uncertainty in the global marketplace may impact future exports. Retail trade is also on a positive path, increasing almost five per cent in 2011. This will continue to help feed the services sector where most of the job gains thus far in 2012 have been. However, with job growth concentrated in the relatively lower paying service sector, average weekly earnings saw only modest increases in the first quarter of 2012, rising 1.2 per cent over the first quarter of 2011.

Manitoba welcomed 15,954 international immigrants in 2011, an increase of one per cent over 2010. These gains, however, were offset by interprovincial migration losses which increased 74 per cent over the same period to 4,356 persons. This contributed to a total net migration of 9,948 persons in 2011, a decline of nine per cent from the previous year.

During the same time period, net migration to the Winnipeg CMA increased almost six per cent to 8,737 people as a greater share of the province's international migrants settled in the city. While the successful Provincial Nominee Program will keep the number of international immigrants to Winnipeg elevated over 2012 and 2013, it is expected that interprovincial losses will also increase. This will result in a levelling off in net migration at 8,200 persons in 2012 and 8,100 in 2013.

MORTGAGE RATE OUTLOOK

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Winnipeg CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	11,509	11,572	12,297	12,400	0.8	12,600	1.6
MLS® New Listings	15,478	15,975	16,385	16,500	0.7	16,900	2.4
MLS® Average Price ($)	207,341	228,706	241,408	252,500	4.6	262,000	3.8
New Home Market							
Starts:							
Single-Detached	1,505	1,921	2,002	2,075	3.6	2,150	3.6
Multiples	528	1,323	1,329	1,425	7.2	1,450	1.8
Starts - Total	2,033	3,244	3,331	3,500	5.1	3,600	2.9
Average Price ($):							
Single-Detached	369,320	376,625	394,958	412,500	4.4	427,000	3.5
Median Price ($):							
Single-Detached	336,960	342,160	357,215	372,000	4.1	384,000	3.2
New Housing Price Index (% chg.)	2.5	4.8	4.8	4.0	-	3.8	-
Rental Market							
October Vacancy Rate (%)	1.1	0.8	1.1	1.2	-	1.4	-
Two-bedroom Average Rent (October) ($)	809	837	875	910	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	401,100	408,500	408,800	413,300	-	417,800	-
Employment Growth (%)	0.0	1.8	0.1	1.1	-	1.1	-
Unemployment rate (%)	5.4	5.7	5.8	5.7	-	5.6	-
Net Migration	7,443	8,262	8,737	8,200	-6.1	8,100	-1.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 27, 2012.

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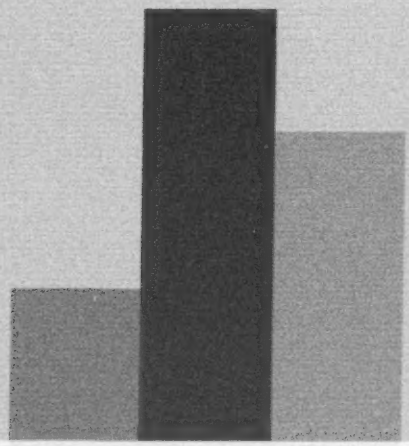

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